

Message Text

LIMITED OFFICIAL USE

PAGE 01 PARIS 07959 01 OF 04 061805Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
EA-10 FRB-03 INR-10 IO-13 NEA-10 NSAE-00 OPIC-03
SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00 OMB-01 SS-15
STR-07 L-03 USIE-00 NSCE-00 SSO-00 INRE-00 /109 W
-----126971 061853Z /46

O R 061750Z MAR 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC IMMEDIATE 8186
AMEMBASSY COPENHAGEN
INFO AMEMBASSY BRUSSELS

LIMITED OFFICIAL USE SECTION 01 OF 04 PARIS 07959

USOECD

USEEC

E.O. 11652: N/A
TAGS: ECON, OECD, DA
SUBJECT: OECD ECONOMIC AND DEVELOPMENT REVIEW COM-
MITTEE (EDRC): ANNUAL REVIEW OF THE DANISH ECONOMY

REF: (A) EDR(78)2, ADDENDA, AND ANNEXES;
(B) COPENHAGEN 1442

1. SUMMARY: SECRETARIAT SURVEY OF DANISH ECONOMY
GENERALLY AGREES WITH EMBASSY'S SUMMARY REPORTED REF-
TEL, BUT IS PERHAPS EVEN MORE GLOOMY. PROGRESS AGAINST
INFLATION IS MINIMAL (EVEN NEGATIVE) ALTHOUGH SOME
IMPROVEMENT ON CURRENT ACCOUNT. HIGHLY TECHNICAL
ANALYSIS OF LABOR MARKET AND WAGE DEVELOPMENTS HIGH-
LIGHTS SHARP INCREASE IN LABOR FORCE SINCE EARLY 1970'S
AND IN NONCYCLICAL UNEMPLOYMENT -- AND WARNS THAT SUP-
PRESSED PRESSURE TO RESTORE TRADITIONAL WAGE DIFFEREN-
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 PARIS 07959 01 OF 04 061805Z

TIALS POSES SERIOUS INFLATIONARY THREAT WHEN ECONOMY
RECOVERS TO MORE NORMAL LEVELS OF CAPACITY UTILIZATION.
MISSION COMMENTS ON SECRETARIAT'S SURVEY AND PROPOSED
REMARKS IN EDRC REVIEW ARE NOTED IN PARA. 9; FURTHER
SUGGESTIONS FROM EMBASSY COPENHAGEN AND WASHINGTON
AGENCIES WOULD BE APPRECIATED. PARTICIPATION OF REPRE-
SENTATIVE FROM EMBASSY COPENHAGEN IN MARCH 9 REVIEW

WELCOMED. END SUMMARY

2. RECENT TRENDS -- DEMAND AND OUTPUT: ECONOMIC GROWTH SLOWED MARKEDLY IN 1977 AS RESTRICTIVE POLICY ATTEMPTED TO CORRECT PERSISTENT HIGH CURRENT ACCOUNT DEFICIT AND INFLATION. REAL DISPOSABLE INCOME FELL SLIGHTLY (1/2 PERCENT) AS REAL WAGE INCOME FELL 3 PERCENT (ALTHOUGH REAL WAGES OF LOW-PAID WORKERS ROSE), REAL FARM INCOME ROSE SIGNIFICANTLY, AND OTHER REAL NON-WAGE INCOMES WERE STABLE, DESPITE A FALL IN PROFIT MARGINS -- NET TAXES (TAX MINUS SUBSIDIES) WERE NEUTRAL. PRIVATE CONSUMPTION WAS UNCHANGED FROM 1976 ALTHOUGH WITH AN ERRATIC PATTERN DUE TO A STRONG THIRD QUARTER IN ANTICIPATION OF VAT RATE CHANGES -- INDICATING A SLIGHT FALL IN THE SAVINGS RATIO. RESIDENTIAL CONSTRUCTION FELL (15 PERCENT), BUT HOUSING STARTS WERE TRENDING UP IN THE FOURTH QUARTER -- REPAIR AND MAINTENANCE WORK HAS RISEN SIGNIFICANTLY IN RESPONSE TO EMPLOYMENT -- SUPPORTING MEASURES. BUSINESS FIXED INVESTMENT WAS STRONGER THAN WOULD BE EXPECTED GIVEN THE WEAK DEMAND CONDITIONS, DUE IN PART TO INVESTMENT-SUPPORTING POLICY MEASURES, ESPECIALLY TO SUPPORT BUSINESS CONSTRUCTION; NEVERTHELESS THERE WAS A DECLINE OF 3 TO 4 PERCENT FROM 1976 LEVELS FOR TOTAL CAPITAL SPENDING. GOVERNMENT EXPENDITURE ON GOODS AND SERVICES WAS UP 1-1/2 PERCENT, IN LINE

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 PARIS 07959 01 OF 04 061805Z

WITH THE COMMITMENT TO LIMIT THE PUBLIC SECTOR. TOTAL DOMESTIC DEMAND, WITH NEUTRAL STOCKBUILDING, WAS DOWN ABOUT ONE PERCENT; TOTAL DOMESTIC PRODUCT, HOWEVER, WAS UP ABOUT 1-1/2 PERCENT DUE TO A POSITIVE 2-1/2 PERCENT CONTRIBUTION FROM THE REAL EXTERNAL BALANCE.

3. WAGES, PRICES AND EMPLOYMENT: EMPLOYMENT IS ESTIMATED TO HAVE REMAINED CONSTANT DESPITE WEAK OUTPUT GROWTH -- DUE TO SECTORAL SHIFTS TO SERVICES, LOWER THAN TREND PRODUCTIVITY GROWTH, AND INCOMPLETE ADJUSTMENT OF EMPLOYMENT TO OUTPUT LEVELS (ALTHOUGH THE LATTER; I.E., LABOR HOARDING, SEEMS LESS IMPORTANT IN DENMARK THAN OTHER OECD COUNTRIES). UNEMPLOYMENT ROSE SIGNIFICANTLY AS LABOR SUPPLY CONTINUED TO INCREASE AT HISTORICALLY HIGH RATES. WAGE COST PRESSURES (BOTH HOURLY WAGE COSTS AND UNIT LABOR COSTS) WERE PROBABLY HIGHER IN 1977 THAN 1976 DUE TO REDUCED WAGE SUBSIDY (IN MARCH, 1977) AND LOWER PRODUCTIVITY GROWTH. NEGOTIATED AND INDEXED WAGE INCREASES, AND WAGE DRIFT, SEEM TO BE MODERATING HOWEVER. CONSUMER PRICES ACCELERATED IN

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 PARIS 07959 02 OF 04 061815Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
EA-10 FRB-03 INR-10 IO-13 NEA-10 NSAE-00 OPIC-03
SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00 OMB-01 SS-15
STR-07 L-03 USIE-00 NSCE-00 SSO-00 INRE-00 /109 W
-----127033 061854Z /46

O R 061750Z MAR 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC IMMEDIATE 8187
AMEMBASSY COPENHAGEN
INFO AMEMBASSY BRUSSELS

LIMITED OFFICIAL USE SECTION 02 OF 04 PARIS 07959

USOECD

1977 (UP 11.1 PERCENT), WITH A 6 PERCENT CARRYOVER
TO 1978.

4. EXTERNAL BALANCE: IMPROVEMENTS IN THE TRADE ACCOUNT WERE DISAPPOINTING. MANUFACTURED IMPORTS DID NOT RESPOND QUICKLY TO THE DOMESTIC SLOWDOWN AND AGRICULTURAL IMPORTS INCREASED (UP 11 PERCENT) DUE TO POOR 1976 HARVEST: TOTAL IMPORTS (VOLUME) WERE DOWN 2-1/2 PERCENT. EXPORTS, ALTHOUGH WEAKER THAN 1976, INCREASED 4 PERCENT IN VOLUME AND WERE THE MOST BUOYANT DEMAND FEATURE IN 1977. UNFAVORABLE TERMS OF TRADE MOVEMENTS AND HIGHER DEBT SERVICES PAYMENTS PARTIALLY COUNTERED THE VOLUME CHANGES, LEAVING A CURRENT DEFICIT OF KR 10 BILLION, PUSHING NET FOREIGN DEBT TO 18 PERCENT OF GDP. FOREIGN RESERVES, HOWEVER, ROSE SLIGHTLY AS BOTH PUBLIC AND PRIVATE SECTORS BORROWED HEAVILY ABROAD.

5. ECONOMIC POLICY: POLICY HAS BEEN ORIENTED TOWARDS IMPROVING THE EXTERNAL POSITION AND MODERATING PRICE
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 PARIS 07959 02 OF 04 061815Z

AND WAGE INCREASES -- PROBLEMS WHICH HAD THEIR ORIGINS BEFORE 1973-4 AND WERE EXACERBATED BY THE OIL (AND OTHER RAW MATERIALS) CRISIS -- AND HAS THEREFORE BEEN GENERALLY RESTRICTIVE WITH SPECIFIC MEASURES TO SUPPORT EMPLOYMENT AND INVESTMENT. FISCAL POLICY HAS BEEN GUIDED BY A MEDIUM-TERM OBJECTIVE OF REDUCING THE RATE OF GROWTH OF GOVERNMENT SPENDING, AND BY THE NECESSITY TO USE SPECIFIC, DISCRETIONARY MEASURES TO MINIMIZE THE NEGATIVE IMPACT OF (A) RESTRICTIVE POLICY ON EMPLOYMENT AND (B) EMPLOYMENT-SUPPORTING POLICY ON THE BALANCE OF PAYMENTS. ON BALANCE, THE MACRO-ECONOMIC IMPACT SEEMS TO HAVE REDUCED BOTH EMPLOYMENT AND IMPORTS IN 1977, ESPECIALLY IN THE FINAL QUARTER. WHILE THE BALANCE ON CURRENT TRANSACTIONS AND REVENUES OF THE PUBLIC SECTOR IS LARGELY UNCHANGED FROM 1976 (BOTH IN 1977 AND PROJECTED FOR 1978), THE TOTAL PUBLIC SECTOR BORROWING REQUIREMENTS (INCLUDING CAPITAL AND LOAN TRANSACTIONS) ROSE SHARPLY IN 1977 COMPLICATING THE CONDUCT OF MONETARY POLICY. INTEREST RATES WERE KEPT HIGH TO ATTRACT FOREIGN CAPITAL AND TO ENCOURAGE FOREIGN BORROWING BY THE PRIVATE SECTOR. GROWTH OF MONETARY AGGREGATES WAS SLOWED SHARPLY -- TO 10 PERCENT FOR M2 IN 1977. THIS TREND HAS BEEN AIDED BY A SHIFT IN ASSET FORMATION -- AS A LARGER PERCENTAGE OF PUBLIC BONDS HAS BEEN PURCHASED BY THE PRIVATE NON-FINANCIAL SECTOR, COUNTERACTING THE GOVERNMENT LIQUIDITY INJECTIONS. DOMESTIC CREDIT HAS ALSO BEEN GRADUALLY TIGHTENED BY TIGHTENING THE COMMITMENT CEILING OF THE BANKING SECTOR. THE HIGH UTILIZATION RATE OF LOAN COMMITMENTS INDICATES THAT CREDIT CEILINGS ARE IN FACT LIMITING, DESPITE GENERALLY WEAK DOMESTIC DEMAND CONDITIONS. MANDATORY WAGE AND PRICES MEASURES INCLUDING A LEGISLATED WAGE SETTLEMENT FOR 1978-80 HAVE BEEN USED BY THE GOVERNMENT TO LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 PARIS 07959 02 OF 04 061815Z

COMPLEMENT THE RESTRICTIVE FISCAL AND MONETARY POLICY. THESE MEASURES HAVE MET WITH LIMITED SUCCESS, AND ARE OFTEN RESPONSIBLE FOR SHARP JUMPS IN WAGE OR PRICE INCREASES UPON RELEASE OF PENT-UP PRESSURES ACCUMULATED DURING PERIODS OF TEMPORARY CONTROLS.

6. OUTLOOK FOR 1978: FISCAL POLICY WILL CONTINUE AS IN 1977 ALTHOUGH THE TOTAL GOVERNMENT BORROWING REQUIREMENT WILL INCREASE TO 10 PERCENT OF GDP (OR 20 PERCENT OF M2), DUE TO SHARP INCREASE IN BOND PURCHASES BY THE SOCIAL SECURITY FUND, TRANSFERS TO THE SUPPLEMENTARY PENSION FUND AND REPAYMENT OF PUBLIC DEBT. THE DIFFERENTIAL IMPACT OF EXPENDITURE AND TAX MEASURES TRANSLATE INTO A RESTRICTIVE FIRST HALF, EASING IN THE SECOND IF

EXPENDITURE AND SUBSIDY MEASURES ARE IMPLEMENTED AS SCHEDULED. FLEXIBLE DEBT MANAGEMENT AND CAREFUL MONITORING OF CREDIT AND MONEY MARKET CONDITIONS WILL BE NECESSARY TO ENSURE A SMOOTH ABSORPTION OF PUBLIC SECTOR BORROWING. DOMESTIC INTEREST COSTS WILL PROBABLY HAVE TO REMAIN CONSIDERABLY ABOVE FOREIGN RATES TO MAINTAIN THE CAPITAL INFLOW. GIVEN THIS POLICY STANCE, THE SECRETARIAT PROJECTS THE FOLLOWING OUTCOME FOR 1978:

-- PRIVATE CONSUMPTION DOWN 2 PERCENT, AS REAL DISPOSABLE INCOME FALLS (PARTICULARLY FOR HIGHER INCOME GROUPS AND PUBLIC EMPLOYEES) DESPITE 10 PERCENT NOMINAL INCREASE IN PERSONAL INCOME.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 PARIS 07959 03 OF 04 061815Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
EA-10 FRB-03 INR-10 IO-13 NEA-10 NSAE-00 OPIC-03
SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00 OMB-01 SS-15
STR-07 L-03 USIE-00 NSCE-00 SSO-00 INRE-00 /109 W
-----127042 061855Z /46

O R 061750Z MAR 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC IMMEDIATE 8188
AMEMBASSY COPENHAGEN
INFO AMEMBASSY BRUSSELS

LIMITED OFFICIAL USE SECTION 03 OF 04 PARIS 07959

USOECD

-- PUBLIC CONSUMPTION -- UP 2 PERCENT.

-- PRIVATE INVESTMENT -- UP marginally, WITH LARGE SECTORAL DIFFERENCES
- RESIDENTIAL CONSTRUCTION - UP 4 PERCENT
- CAPITAL SPENDING IN AGRICULTURE - UP 25 PERCENT
- BUSINESS CONSTRUCTION - STABLE AT HIGH LEVEL
- PLANT AND EQUIPMENT - CONSIDERABLY BELOW 1977 ON

AVERAGE

-- PUBLIC INVESTMENT - UP 1 PERCENT

-- STOCKBUILDING - DOWN 1/2 PERCENT

-- TOTAL DOMESTIC DEMAND - DOWN ONE PERCENT

-- FOREIGN SECTOR (VOLUME):

- EXPORTS - UP 4 PERCENT

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 PARIS 07959 03 OF 04 061815Z

- IMPORTS - DOWN 2-1/2 PERCENT

-- GROSS DOMESTIC PRODUCT - UP 1-1/4 PERCENT

GIVEN THIS FORECAST, EMPLOYMENT SHOULD FALL SLIGHTLY AND UNEMPLOYMENT RISE SIGNIFICANTLY, PERHAPS TO OVER 9 PERCENT OF THE LABOR FORCE. NOMINAL WAGE INCREASES MAY BE SLIGHTLY BELOW 10 PERCENT, WHILE SALARIES MAY BE CLOSER TO 6 PERCENT. PRICES (CPI) SHOULD MODERATE FURTHER, PERHAPS TO 7 PERCENT DURING THE YEAR, BUT ON AVERAGE OVER 1977 WILL INCREASE NEAR 11 PERCENT. WAGE AND PRICE IMPROVEMENT IS, HOWEVER, DUE IN LARGE PART TO THE SPECIAL BUDGETARY ARRANGEMENTS WHICH WILL EXPIRE AT END 1979 -- AND LONGER-RUN OUTLOOK IS NOT PARTICULARLY PROMISING FOR CONTINUED MODERATION. ON CURRENT ACCOUNT, A SIGNIFICANT FALL IN THE DEFICIT IS EXPECTED (TO KR 7.5 BILLION) AS THE CHANGES IN THE TRADE BALANCE (VOLUME) AND IN THE TERMS OF TRADE ARE BOTH FAVORABLE, ALTHOUGH THE DEFICIT ON "INTEREST AND TRANSFERS" WILL ENLARGE.

7. LABOR MARKET AND WAGE DEVELOPMENT--A SPECIAL STUDY: IN A HIGHLY TECHNICAL ANALYTICAL STUDY, THE SECRETARIAT ATTEMPTS TO CAST SOME LIGHT ON THE CURRENT LABOR MARKET SITUATION IN DENMARK, ITS CAUSES AND FUTURE IMPLICATIONS FOR POLICY. WHILE IT IS DIFFICULT TO DISTINGUISH CLEARLY BETWEEN THE IMPACT OF CYCLICAL AND NON-CYCLICAL FACTORS, THE OVERALL DEVELOPMENT IN OUTPUT, LABOUR FORCE AND EMPLOYMENT DOES SEEM TO SUGGEST THAT THE NON-CYCLICAL COMPONENT OF UNEMPLOYMENT HAS INCREASED DURING THE LAST FOUR YEARS, THOUGH MAINLY DUE TO A FASTER RISE IN THE SUPPLY OF LABOR, AT LEAST IN PART DUE TO GENEROUS UNEMPLOYMENT BENEFITS (FOR THOSE COVERED BY UNEMPLOYMENT

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 PARIS 07959 03 OF 04 061815Z

INSURANCE) AND SHIFTS IN WAGE DIFFERENTIALS FAVORING WOMEN. RECENT CHANGES IN THE LABOR FORCE AND VARIATIONS IN THE DEGREE OF CYCLICAL SENSITIVITY ALSO ACCOUNT FOR A MAJOR PART OF THE RECORDED UNEMPLOYMENT TRENDS FOR DIFFERENT GROUPS AND SECTORS. WITH RESPECT TO WAGES, THE VARIOUS EMPIRICAL TESTS PROVIDE NEITHER A COMPLETE NOR A VERY SATISFACTORY EXPLANATION OF RECENT DEVELOPMENTS IN WAGE DISPERSIONS. HOWEVER, THE DIFFERENT MEASURES DO POINT TO A CONSIDERABLE NARROWING OF WAGE DIFFERENTIALS AND HENCE TO AN IMPORTANT DEVIATION FROM THE STABLE WAGE STRUCTURE CHARACTERIZING EARLIER PERIODS. THIS CONCLUSION SEEMS TO HOLD REGARDLESS OF WHETHER WAGE DISPERSIONS ARE BASED ON DIFFERENCES BETWEEN OCCUPATIONAL GROUPS OR INDUSTRIAL SECTORS. IN ADDITION TO SPECIFIC MEASURES AND POLICY AIMS, THIS DEVELOPMENT CAN LARGELY BE SEEN AS A RESULT OF THE COEXISTENCE OF HIGH RATES OF INFLATION AND UNEMPLOYMENT, WHICH IN RECENT YEARS SEEM TO HAVE DOMINATED SECTOR-SPECIFIC CHANGES IN OUTPUT PRICES AND PRODUCTIVITY GAINS. WHILE THERE IS NO EVIDENCE THAT THE DIFFERENTIAL WAGE DEVELOPMENTS HAVE INFLUENCED THE GENERAL RATE OF INFLATION, THE SIGNIFICANT NARROWING OF WAGE DISPERSIONS MAY, IF NOT ACCEPTED BY THE LABOR MARKET PARTIES CONCERNED, HAVE BEEN ACCOMPANIED BY PENT-UP WAGE CLAIMS, WHICH IN FUTURE YEARS COULD INDUCE ATTEMPTS TO RESTORE THE PREVIOUS WAGE STRUCTURE AND HENCE COMPLICATE THE TASK OF STABILIZATION POLICIES.

8. CONCLUSIONS: AS A RESULT OF ITS REVIEW OF DANISH

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 PARIS 07959 04 OF 04 061827Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
EA-10 FRB-03 INR-10 IO-13 NEA-10 NSAE-00 OPIC-03
SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00 OMB-01 SS-15
STR-07 L-03 USIE-00 NSCE-00 SSO-00 INRE-00 /109 W
-----127108 061856Z /46

O R 061750Z MAR 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC IMMEDIATE 8189
AMEMBASSY COPENHAGEN

INFO AMEMBASSY BRUSSELS

LIMITED OFFICIAL USE SECTION 04 OF 04 PARIS 07959

USOECD

ECONOMIC POLICY AND PERFORMANCE, THE SECRETARIAT SUGGESTS THE FOLLOWING CONCLUSION:

(A) ALTHOUGH THE STATUTORY GENERAL WAGE SETTLEMENT AND OTHER INCOMES POLICY MEASURES HAVE CONTRIBUTED TO MODERATING THE RATE OF WAGE INCREASES, THERE IS CLEARLY A NEED FOR FURTHER PROGRESS. WHILE THE MAINTENANCE OF TIGHT DEMAND MANAGEMENT WILL BE A KEY ELEMENT IN REDUCING THE RISK OF A REACCELERATION OF INFLATION, SPECIAL MEASURES WILL BE REQUIRED TO ENSURE A STABLE PRICE AND WAGE DEVELOPMENT BEYOND THE FORECAST PERIOD AND TO PREVENT DISTORTIONS IN THE WAGE STRUCTURE FROM CREATING HIGHER WAGE DRIFT.

(B) WHILE THE STABILIZATION OF MONETARY DEVELOPMENTS AND A FLEXIBLE INTEREST RATE POLICY HAVE LESSENNED THE PROBLEM OF FINANCING THE CURRENT EXTERNAL DEFICIT, IT IS ALSO IMPORTANT THAT THE MONETARY INSTRUMENTS USED DO NOT ADVERSELY AFFECT BUSINESS FIXED INVESTMENT AND LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 PARIS 07959 04 OF 04 061827Z

RATIONALIZATION. IN THE PAST A HIGH RATE OF PRODUCTIVITY GROWTH HAS BEEN AN IMPORTANT ELEMENT OF STABILIZATION, PARTIALLY OFFSETTING THE IMPACT ON INTERNATIONAL COMPETITIVENESS OF HIGH WAGE INCREASES.

(C) CONSIDERING THE RATHER MEAGRE RESULTS OBTAINED SO FAR IN REDUCING THE RATE OF INFLATION AND THE EXTERNAL DEFICIT, AS WELL AS THE HIGH COSTS IN TERMS OF FOREGONE OUTPUT AND EMPLOYMENT RESULTING FROM THE PRESENT POLICY STRATEGY, IT MAY BE APPROPRIATE TO RECONSIDER THE RISKS ATTACHING TO VARIOUS POLICY ALTERNATIVES. THUS, A MORE EVENLY BALANCED COMBINATION OF EXPENDITURE REDUCING AND EXPENDITURE SHIFTING POLICIES COULD IMPROVE THE OUTLOOK FOR TOTAL OUTPUT AND THE EXTERNAL BALANCE, AND SUPPLEMENTARY "FLANKING" MEASURES COULD REDUCE THE RISK THAT SUCH A SHIFT IN THE ORIENTATION OF POLICIES WOULD MERELY RESULT IN AN ACCELERATION OF INFLATION.

9. MISSION COMMENTS:

(A) DANISH UNEMPLOYMENT COMPENSATION PROGRAM AND LACK OF WIDESPREAD EMPLOYMENT SUPPORTING MEASURES HAVE BEEN

FREQUENTLY CITED AS MORE CONDUCTIVE TO ADJUSTMENT IN CURRENT SLOW GROWTH ENVIRONMENT THAN POLICY WHICH ENCOURAGES RETENTION OF EMPLOYMENT LEVELS IN DECLINING INDUSTRY. SECRETARIAT'S SURVEY, HOWEVER, INDICATES SOME PROBLEMS CREATED BY HIGH UNEMPLOYMENT BENEFITS; E.G., RAPID INCREASE IN LABOR FORCE AND PARTICIPATION RATES. MISSION PLANS TO EXPLORE DANISH POLICY FROM THIS ANGLE WITH DANISH DELEGATION AND SECRETARIAT, WITH PARTICULAR EMPHASIS ON WHETHER INDUSTRIAL/SECTOR ADJUSTMENT SEEMS TO BE PROCEEDING FASTER AND MORE SMOOTHLY IN DENMARK THAN ELSEWHERE.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 PARIS 07959 04 OF 04 061827Z

(B) SECRETARIAT ANALYSIS OF LABOR MARKET AND WAGE DEVELOPMENTS SUGGESTS FUTURE RISKS OF INFLATION TO RESTORE TRADITIONAL WAGE DIFFERENTIALS -- BUT DOES NOT ADDRESS QUESTION OF POSSIBLE FACTOR SHARE IMBALANCES; I.E., INSUFFICIENT PROFITS, DUE TO RECENT HIGH WAGE INCREASES. MISSION INTENDS TO ASK DANISH DELEGATION WHETHER GRADUAL REDISTRIBUTION OF SHARES TO PROFITS IS NECESSARY AND DESIRABLE, WITH COROLLARY THAT REAL WAGES MUST RISE MORE SLOWLY THAN PRODUCTIVITY OVER EXTENDED PERIOD.

(C) SECRETARIAT CONCLUDES THAT COSTS OF CURRENT POLICY SHOULD CAUSE RECONSIDERATION OF POLICY OPTIONS WITH RECOMMENDATION THAT LESS RESTRICTIVE EXPENDITURE-SWITCHING POLICY BE PURSUED. ANALYSIS BEHIND THIS CONCLUSION IS WEAK, AND MISSION PLANS SEEK GREATER ELABORATIONS FROM SECRETARIAT.

SALZMAN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, ANNUAL REPORTS, ECONOMIC TRENDS
Control Number: n/a
Copy: SINGLE
Draft Date: 06 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978PARIS07959
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780100-1223
Format: TEL
From: PARIS USOECD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197803102/aaaadivg.tel
Line Count: 476
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: b629f8b7-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 9
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 COPENHAGEN 1442
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3106421
Secure: OPEN
Status: NATIVE
Subject: OECD ECONOMIC AND DEVELOPMENT REVIEW COM- MITTEE (EDRC): ANNUAL REVIEW OF THE DANISH ECONOMY
TAGS: ECON, DA, OECD
To: STATE COPENHAGEN
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/b629f8b7-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014